

How does the growth of hospital construction impact the regional economy?

Six case studies in New Hampshire

Certificate of Need (CON) Applications

In early 2003, a survey conducted by *Business NH Magazine* showed \$415 million was dedicated to hospital construction projects throughout the state.¹⁰ When medical facilities want to expand or invest capital funds toward improvements they must submit a certificate of need (CON) application to the State.¹¹

Approval must be obtained before hospitals can initiate projects that require capital expenditures above certain dollar thresholds, introduce new services, or expand beds or services.¹² In New Hampshire the standards established are intended to improve:

- the quality of care,
- access and availability to services, and
- preserve the cost effectiveness of services provided.

These all have to be done without causing a detrimental effect on the surrounding health care system of the area serviced by the CON applicant facility.¹³

The current expense thresholds, established by New Hampshire statute, and enforced by the Health Services Planning and Review administration, the board responsible for reviewing and approving CON applications in New Hampshire,¹⁴ are:

- \$2,150,891 for any acute care facility project,
- \$1,433,928 for any nursing home, ambulatory surgical facility or specialty hospital project, and
- \$400,000 for equipment.

According to the Health Services Planning and Review administration, hospitals have to show a need for expansion that does not increase their New Hampshire market share. Therefore the hospitals describe these physical expansions in terms of service improvements rather than growth. Improved technologies and enhanced diagnostic capabilities of new equipment are essentially expected in the health care environment.

¹⁰ NH Public Radio, <www.nhpr.org/node/4460>, *The Certificate of Need Process*, February 5, 2003. Accessed August 2, 2006.

¹¹ A Certificate of Need is required for a licensed health care facility to proceed with large and often expensive construction or renovation projects that exceed a threshold amount established by NH Statutes. <www.dhhs.nh.gov/DHHS/HSPR/default.htm>. Accessed September 6, 2006.

¹² Department of Public Health and Human Services, <www.dphhs.mt.gov/aboutus/divisions/qualityassurance/certificateofneed/index.shtml>. Accessed August 2, 2006.

¹³ State of New Hampshire Administrative Rules, He-Hea 1001 Acute Care Facilities, <www.gencourt.state.nh.us/rules/he-hea1000.html>. Accessed August 3, 2006.

¹⁴ New Hampshire Department of Health and Human Services, Welcome to Health Services Planning & Review, <www.dhhs.nh.gov/DHHS/HSPR/default.htm>, Accessed August 3, 2006.

Hospital Construction Projects in New Hampshire

When hospitals want to expand, they need to show the Board essentially three things:

- They will not be increasing their market share or develop an unfair advantage over another hospital in their region.
- They will not be duplicating services of neighboring facilities.
 - This part of the CON application process tries to preserve the cost effectiveness of the services being provided.
 - *For example, assume a hospital decided to invest in the same expensive piece of equipment that a neighboring facility has. Typically the expertise of those operating the equipment increases with practice or frequent use. So, if there were two neighboring facilities with the same equipment each of these users would develop only half as much expertise. Also, the cost of the equipment would be spread over the volume of patients. So, the demand at the two facilities for the new service and equipment would need to be enough to support that equipment in both locations to justify the cost and preserve the efficiency of having it in both locations.*
- The residents of the area will not go without services, either short term or long term, if the expansion occurs.

How improvements were measured

We selected several large CON requests that are currently on file with Health Services Planning and Review, housed at New Hampshire Department of Health and Human Services.¹⁵ We chose CON applications that were at least \$15 million because these applications had large construction components. This eliminated requests for only equipment which generally do not create any additional jobs. Typically the CON applications for less than \$15 million were only for equipment purchases or did not include substantial building renovations. In order to gauge the most current improvements, we selected significant expansion projects in progress

since the beginning of 2004, or those having an approved Certificate of Need for such a project not yet started.

This study criteria yielded projects for ten acute care hospitals in six counties.

The intent of the study was to evaluate the economic impact such projects have on

the economy, locally and statewide. To assess the changes to the local economy, we used our REMI econometric model¹⁶ that incorporates all the statistical formulas for forecasting change.

Certificate of Need (CON) Applications

Hospital	Location	County	CON Amount (millions)	Employees
The Memorial Hospital	North Conway	Carroll	\$17.8	352
Mary Hitchcock Hospital	Lebanon	Grafton	\$165.0	7,100
Speare Memorial Hospital	Plymouth	Grafton	\$15.0	320
Catholic Medical Center	Manchester	Hillsborough	\$32.5	1,700
St. Joseph Hospital	Nashua	Hillsborough	\$31.1	1,200
Southern NH Medical Center	Nashua	Hillsborough	\$26.6	1,254
Concord Hospital	Concord	Merrimack	\$57.7	2,757
Exeter Hospital	Exeter	Rockingham	\$51.5	1,257
Parkland Medical Center	Derry	Rockingham	\$15.7	634
Frisbie Memorial Hospital	Rochester	Strafford	\$42.7	827

¹⁵ The Health Services Planning Review Board is administratively attached to DHHS. NH Statutes define an administratively attached agency such as HSPR as an “independent agency linked to a department for purposes of reporting and sharing support services.” Thus, while the HSPR Board exercises its powers independently from DHHS, HSPR staff members are DHHS employees

¹⁶ Re□ model.

Interviews with representatives from some of the hospitals selected for the study indicated that most of the changes expected would be to the physical footprint of buildings on the hospital campuses.¹⁷ According to these representatives, most hospital employment changes had already taken place in response to increased demand. Therefore, the primary economic impact of these projects is the temporary boost to *Construction* employment and the effect of the capital expenditures in building materials and equipment, and how these ripple through the local economy.

Construction's unique quality of being transient makes it challenging to include in the forecasting process, especially when studying specific areas like counties. For example, a spike and decline in *Construction* in a certain area, region or county, would not necessarily mean that the statewide *Construction* sector would experience a spike or decline, but more that it moved from one site to another. This is one of the reasons the *Construction* industry is susceptible to frequent employment shifts, more so than other industries.

Additional conditions that may affect *Construction* employment levels would be the availability of construction workers and the weather. A shortage of construction workers translates to delays, and the weather can impact construction schedules and therefore employment levels.

¹⁷ Telephone interviews conducted 6/29/2006 with Lisa Drouse, Director of Planning, Catholic Medical Center; Scott Westover, Planning, Southern New Hampshire Medical Center, 7/6/2006 Kathleen Proulx, Administrative Dir. Clinical and Professional Services, Parkland Medical Center.